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Telling All**Full-Disclosure Push
By SEC on Companies
Worries Some Critics****They Question Airing Links
To CIA, Foreign Payoffs;
Will Stockholders Suffer?****Seeking a Long-Term Policy**

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WASHINGTON — When Securities and Exchange Commission officials discuss the agency's authority to compel corporations to disclose how they earn and spend their money, the officials frequently end up talking about sunlight.

For they often explain the importance of disclosure by quoting the 1914 maxim of Supreme Court Justice Louis D. Brandeis that "publicity is justly commendable as a remedy for social and industrial disease. Sunlight is said to be the best disinfectant."

Public disclosure of important business and financial information to enable investors to make informed decisions has always been the bulwark of federal securities law. But now some corporations are discovering that sunlight, warm and comforting in moderation, can be painful in large doses. And with more companies getting sunburned as the result of SEC proceedings, corporate lawyers and some government officials are complaining that the SEC may be going too far in requiring certain disclosures and thus may be damaging the public interest. The commission itself is debating how far it should go; members wonder if disclosure might sometimes hurt rather than help investors.

The controversy centers on large multinational corporations, banks, weapons manufacturers and companies that do sensitive work for the Defense Department and the Central Intelligence Agency. Recent SEC actions have forced embarrassing disclosures from companies in all these categories, and some of these cases have raised issues of foreign relations, national security and economic policy, as well as the more traditional questions of the amount and type of information investors are entitled to receive.

"There are just endless possibilities that disclosure opens up," SEC member A. A. Sommer Jr. says, noting that "all of the consequences of making disclosure aren't going to be good" for the company, its shareholders or even the interests of other government agencies.

Banana Brouhaha

Consider some of the effects of recent disclosures stemming from SEC actions:

—The admission by United Brands Co. that it paid \$1.25 million to Honduran government officials last year to win a reduction in that country's export tax on bananas provoked Honduran labor and student groups to demand that the food company's assets be nationalized. When the payoff was revealed last month State Department officials feared that the disclosure might make it more difficult for U.S. companies to operate in Latin America and suggested that the information could damage the already unsteady government of Honduran President Oswaldo Lopez, a suspected recipient of the bribe. In fact, Gen. Lopez was deposed two weeks after the payoff became known, although he has denied taking the money.

—The disclosure that Gulf Oil Corp. made "contributions" totaling at least \$4.2 million to political figures in unidentified foreign countries to protect its investments abroad have provoked inquiries and threats from several Latin American governments demanding to know where the money went. (On Wednesday, Peru's government announced that because of Gulf's "notorious immoral conduct" it was taking over Gulf's marketing operations in that country, which the company says consist mainly of 13 service stations worth a total of \$2 million.) Gulf officials are set to testify on their "contributions" tomorrow before a Senate subcommittee that also plans to investigate other foreign payments by U.S. companies.

—The revelation that Northrop Corp. paid or committed \$30 million in sales commissions and expenses, some of which may have gone to government officials abroad, to foreign sales agents from 1971 through 1973 helped touch off a Defense Department investigation of commission practices followed by other defense contractors.

—When reports that Global Marine Inc. participated in a covert government effort to raise a sunken Russian submarine caused the SEC to investigate why the company hadn't disclosed this operation to its shareholders, another government agency, reportedly the CIA, appealed to the SEC to keep its findings secret.

—Current SEC efforts to force bank holding companies to disclose sensitive information on shaky loans could make it difficult for banks to raise capital and help finance an economic recovery, Federal Reserve Board Chairman Arthur F. Burns warns.

No Moralizing Campaign

In explaining the commission's use of disclosure rules to illuminate hidden corners of corporate activity, SEC member Irving M. Pollack declares "we're not engaged in some sort of campaign to blacken people or moralize the world. We're just trying to force disclosure" of important facts.

Mr. Pollack and other SEC commissioners contend that the agency hasn't expanded its view of what constitutes material information that must be disclosed. Rather, they say, the controversies arose when the agency applied its normal disclosure standards to cases that, it developed, had abnormal implications. (Most of the foreign payoff cases resulted from SEC investigations into concealment of illegal corporate contributions to President Nixon's 1972 campaign.)

But many interested bystanders disagree. "I see a great evolution or revolution in the SEC's view" of what is material information that may influence investment

decisions, one Ford administration official concludes.

He, like others who request anonymity on the sensitive issue of payoffs abroad, notes that greasing the palms of officials is regarded as common practice in many countries. The amounts involved are generally small compared to the corporation's revenues, he says, suggesting that the SEC is using the foreign payoff cases to impose on foreign governments and multinational concerns its view of how business ought to operate abroad. "I think there are a lot of questions as to whether Congress expected the commission to make moral judgments" through its disclosure requirements, this official adds.

The SEC disputes this view. Referring to the disclosure of payoffs abroad, Commissioner Philip A. Loomis Jr. says: "People come to us and say, 'Look, what can we do? Everybody else does it.' We're not interested in moral standards as such, but we do have rather clear mandates" requiring disclosure of large, unusual payments.

When corporations can "put millions of dollars off somewhere and use it for mysterious purposes, that obviously raises certain questions about what the corporation is doing with its money," Mr. Loomis continues. Gulf, Northrop, Phillips Petroleum Co. and Minnesota Mining & Manufacturing Co. have all been sued by the SEC for falsifying their financial reports to disguise political slush funds from which they made illegal contributions to Mr. Nixon's 1972 campaign and, in some cases, foreign payments as well. Mr. Loomis declares that "the idea that a company can have a slush fund, known to and controlled by only a few corporate officials, is obviously contrary to our disclosure law" requiring strict accountability for the use of corporate funds.

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